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Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Follow-up review of the programme and administrative practices of the United Nations Centre for Human Settlements (Habitat)

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General, Overseer of the Office of Internal Oversight Services, on the follow-up to the 1997 review of the programme and administrative practices of the United Nations Centre for Human Settlements (Habitat).

2. The Secretary-General takes note of its findings and concurs with its recommendations.

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Report of the Office of Internal Oversight Services on the follow-up to the 1997 review of the programme and administrative practices of the United Nations Centre for Human Settlements (Habitat)

Summary

In October 1999 the Office of Internal Oversight Services (OIOS) carried out a follow-up inspection concerning its report of 23 April 1997 (A/51/884). It assessed the progress made in implementing the previous recommendations, and whether the desired improvement in the financial and administrative management of the United Nations Centre for Human Settlements (Habitat) had begun to materialize. In that regard, particular attention was paid to the revitalization efforts begun in September 1998. That allowed the inspection to maintain a forward-looking profile and to provide a constructive input into making the revitalization more effective.

Following the issuance of the initial OIOS report in April 1997, a number of disjointed and inconclusive efforts at reforming the Centre were attempted. The decisive breakthrough came in July 1998, with the new Acting Executive Director launching the revitalization campaign. By the beginning of 1999, the revitalization effort had resulted in a new vision, translated into a strategically focused draft work programme, and a streamlined organizational structure for the Centre based on strategic goals, which provided for enhanced flexibility in implementing substantive activities. The revitalization exercise received the approval of Member States and other Habitat stakeholders.

The inspection observed convincing advances in redefining the Centre's mission, in redesigning its work programme to concentrate resources on strategic goals and in aligning the new organizational and programmatic structures. OIOS noted that the revitalization had established viable linkages between the operational and normative activities of the Centre, and had infused a healthy flexibility into its work processes. There are encouraging signs of an emerging new work culture which puts a premium on initiative, creativity and flexibility. OIOS is of the view that the revitalization effort has given a new impetus to the Centre's future work, and much effort has been put into creating its new, revitalized image.

However, the administrative support necessary to sustain those efforts is still weak. OIOS recognizes that, owing to the historic legacy of inadequate management, efforts in renewing the administrative and financial areas had to start from an unusually low base. That resulted in efforts at improvement being reduced to crisis management, leaving little room for the development of a comprehensive, forward-looking reform policy.

While those "firefighting" efforts undoubtedly achieved certain changes for the better in the most problematic areas, OIOS believes that it is now time for Habitat to emphasize strong financial and personnel management, to ensure that the revitalization momentum is maintained and that staff morale and donors' confidence are not adversely affected. That will require the same strategic planning, policy guidance, professional expertise and persistence in implementation as was shown in the programmatic areas.

OIOS recommends that financial and personnel management be given priority attention and be tackled as decisively, expeditiously and comprehensively as the programmatic areas. The Centre, jointly with the United Nations Office at Nairobi (UNON), should continuously update, and energetically implement, concrete and detailed measures relative to financial and human resources management.

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I. Introduction

1. On 23 April 1997, the Secretary-General transmitted to the General Assembly the report of the Office of Internal Oversight Services (OIOS) concerning the review of the programme and administrative practices of the United Nations Centre for Human Settlements (Habitat) (A/51/884). In summary, the findings of the report suggested that there were significant weaknesses in the management of the Centre:

- A strategic vision was lacking.
- Activities were not supportive of each other and resources were dispersed thinly.
- An effective system for monitoring programme implementation and assessing results was not in place.

2. The report concluded that the weakness of leadership, the lopsided organizational structure, duplication of functional responsibilities and blurred accountability affected negatively the financial position of the Centre and the confidence of its donors.

3. The Commission on Human Settlements, in paragraph 4 of its resolution 16/8 of 7 May 1997, requested the Secretary-General to ensure prompt implementation of the recommendations of OIOS. The General Assembly, in its decision 51/468 G of 13 June 1997, took note of the report of OIOS and Commission resolution 16/8, and of the assurances of the Executive Director that the Centre had begun the implementation of recommendations contained in the report of OIOS, and encouraged the Centre to implement fully the recommendations as approved by the Commission. The good intentions notwithstanding, the implementation during the following year was sporadic and inconsistent and the decisive turnaround in the performance of the Centre was nowhere in sight.

4. The purpose of the current OIOS inspection, which took place in October 1999, was to assess progress in the implementation of the previous recommendations in the context of the ongoing revitalization of the Centre, with particular attention to how it had affected the efficiency and financial situation of the Centre.

5. The OIOS findings and recommendations are grouped below under main subject areas. They are prefaced by a brief overview of developments that have taken place since the 1996 inspection. The annex shows the current organizational structure of the Centre.

6. The inspection team met with the management of the Centre and its staff and had the benefit of receiving the views of the Member States directly during the course of a special meeting of the Committee of Permanent Representatives in Nairobi.

7. OIOS greatly appreciates the cooperation extended to its team by the management and the staff of the Centre. The comments of management were sought on the draft report and were taken into account in the preparation of this final report. Summaries of such comments are provided in italics under the respective recommendations (see paras. 73-83 below). OIOS was encouraged by the commitment of the Centre, expressed in its comments on the draft report, to address fully all issues raised in the present report and to implement all recommendations.

II. Recent developments

8. The Acting Executive Director acknowledged that despite a number of assessments, reviews and studies, by mid-1998 the Centre was still experiencing serious problems and faced an extremely uncertain future. He therefore appointed, in September 1998, a Revitalization Team, which proposed a strategic vision for Habitat (see HS/C/17/2/Add.2, annex) and a new organizational structure, and provided recommendations on management and administrative matters. The Committee of Permanent Representatives and the staff were consulted in the preparation of the report, which was adopted by the Acting Executive Director as the blueprint for the revitalization of the Centre. The programmatic and interdisciplinary aspects of the Centre's work also benefited from the recommendations of the United Nations Task Force on Environment and Human Settlements (see A/53/463).

9. The reaction of stakeholders to the revitalization programme was largely positive, as reflected in the discussion at the seventeenth session of the Commission on Human Settlements and in the decisions adopted at that session.[1] In its resolutions 17/1 and 17/6 of 14 May 1999, for example, the Commission recognized that the overall thrust of the new strategic vision for the Centre and its emphasis on two global campaigns were strategic points of entry for

an effective implementation of the Habitat Agenda, acknowledged the ongoing revitalization and its linkages with the wider United Nations reform and welcomed the management's commitment to develop Habitat into the centre of excellence on the themes of adequate shelter for all and sustainable urban development. By its resolution 17/7 of 14 May 1999 on the revitalization of the Habitat Centre, the Commission mandated the Executive Director to implement the new strategic vision comprehensively and encouraged him to implement fully, as a matter of urgency, all administrative and financial management reforms, as part of the ongoing revitalization process. By its resolution 17/20 of 14 May 1999 on the work programme and budget of the Centre for the biennium 2000-2001, the Commission approved the draft work programme along with the strategy contained therein to combine normative and operative functions, while underlining the need for the programme adequately to reflect the strategic vision for a revitalized Centre, and also endorsed the reorganization of the Centre.

III. Planning and organization

10. In its 1997 review, OIOS found that the Centre lacked a central thrust in programmatic activity, and that there was very little effective linkage between the research and programme functions; there was insufficient synergy between subprogrammes and efforts at capacity-building had faltered. OIOS recommended that the work programme should be more focused, better integrated and reflect the strong linkages between research and technical cooperation; it should also integrate the functions of the regional units within the overall programmatic structure. OIOS further recommended that any reorganization of the Centre should be aligned to the programme structure with its organizational elements mutually supportive of each other, and that the fragmentation of scarce resources over small units should be avoided (A/51/884, paras. 51 and 52).

11. Since then, the Centre has developed a strategic vision, realigned its work programme to that vision and restructured its organization. The strategic vision aims at recognizing the Centre as the United Nations city agency, which should adopt the style and profile of a global advocacy agency and use two strategic campaigns, each derived from one of the two main themes of the Habitat Agenda: one for secure tenure and the other on urban governance. The current inspection noted that the underlying principle of the new vision was to avoid the dispersion of effort, and to strengthen organizational coherence.

12. The draft work programme for 2000-2001 consists of two subprogrammes compared to eight in the past and is strategically focused with a limited number of well-defined objectives aimed at achieving the goals of the Habitat Agenda. It also differs from past programmes in stressing interlinkages between normative and operational activities. The programme emphasizes the strengthening of the strategic and operational partnerships of the Centre along with building up the Centre's comparative advantages, while ensuring that the Centre does not duplicate expertise available elsewhere, especially within the United Nations system. OIOS finds the new work programme, expressed in the format of objectives, expected results and performance indicators, to be an effective instrument for concentrating the Centre's resources and expertise on the priorities defined by its strategic vision. The inspection team shared with the management its observations concerning specific flaws and weaknesses it has detected in the formulation of some of the expected results and performance indicators. Those observations were accepted and will be implemented in the course of designing the work plans for the Centre's divisions for 2000-2001.

13. Concerning the new organizational structure (see annex), OIOS found that it fulfils the purpose of streamlining executive management and concentrating the Centre's resources on implementation of its two subprogrammes and their respective global campaigns. The reorganization envisages that the regional offices will become fully integrated into the work of the Centre and act as its regional focal points. OIOS finds the new structure to be in accord with the letter and spirit of its earlier recommendation.

14. Two substantive divisions, the Global Division and the Regional and Technical Cooperation Division, carry out the subprogrammes and a third provides support in programming, administrative and financial management, resource mobilization and facilitating cooperation with partners:

- The Global Division has overall responsibility for aligning the normative and policy activities of the Centre around two global campaigns of secure tenure and urban governance. A key component

of the Division is the Urban Secretariat, whose task is to provide support to both divisions in monitoring and assessment, developing indicators and statistics and disseminating best practices.

- The Regional and Technical Cooperation Division is tasked with projecting the Centre's campaigns into regions and providing direct policy and technical support to regional partners and fostering regional cooperation in urban and shelter development. Its important function is also to feed back knowledge gained into all policy components of the Centre.
- The Programme Support Division is tasked with ensuring, *inter alia*, that the Centre utilizes effective planning and has sound financial and administrative management and proper servicing of funding partners. The Division provides overall direction and guidance on the allocation and management of the Centre's resources and is responsible for designing a comprehensive fund-raising policy and managing fund-raising activities.

15. The inspection found that the Programme Support Division had to spend a considerable amount of time correcting the backlog of problems inherited from predecessors, while being simultaneously fully engaged in the set-up of the new organizational structure. There is an absence of strategic planning and guidance to tackle these problems comprehensively and in a coordinated manner, as well as time-frames for their eventual elimination.

16. On the positive side OIOS noted that, through donors' funding, the Centre commissioned consultants to develop an information technology strategy during the period from September to December 1999. The strategy defines a long-term information technology vision and sets implementation priorities (including a time-frame). Among the key issues addressed by the strategy are: development of project management tools to support all knowledge-intensive work and the control and monitoring of projects; enhancement of the use of the Internet and the World Wide Web for general communication and dissemination of information, and the relevant organizational structure.

17. The new organizational structure of the Centre was submitted to Headquarters for approval in February 1999. OIOS was concerned with the inordinate length of time spent at Headquarters in reviewing and clearing the draft Secretary-General's bulletin promulgating the new structure of the Centre. Eventually, the three interconnected bulletins relating to the three units in Nairobi were issued on 23 December 1999 (ST/SGB/1999/20, 21 and 22).

IV. Leadership and management

18. OIOS was strongly impressed by the dedicated, visionary and forceful leadership provided by the Acting Executive Director to an organization previously uncertain of its mission. However, keeping the Centre on course demands not only strong leadership, but also hands-on management. This is essential to obtain and provide the feedback necessary to ensure that the goals and objectives are being achieved. It is also essential from a motivational standpoint to assure staff that top management is working daily with them to advance the reform.

19. OIOS is concerned that the Acting Executive Director spends a large proportion of the official working hours away from Nairobi. OIOS appreciates his dedication in maintaining a high political visibility and is aware of the extreme intensity of the Acting Executive Director's work schedule while in Nairobi, which covers long hours and includes weekends. It was noted also that out of eight meetings of the Senior Management Group held in 1999, four were chaired by the Acting Executive Director in person, and that constant communication is maintained between him and his Acting Deputy during his absence. However, given the heavy competition for the Acting Executive Director's time between the Centre, the United Nations Office at Nairobi (UNON) and the United Nations Environment Programme (UNEP), OIOS does not consider this arrangement to be healthy or to meet the Centre's requirements.

V. Performance monitoring, evaluation and project appraisal

20. In its 1997 report, OIOS recommended that the Centre establish a mechanism for performance monitoring, evaluation and reporting, and that the project appraisal function be separated from the monitoring and evaluation function. It was further recommended that consideration of lessons learned be added to the project design process and that the rigour

of the appraisal process be increased (A/51/884, paras. 56, 57 and 59).

21. At the time of the current review, the Centre had established a monitoring mechanism and programme performance reporting which are incorporated into the Secretariat-wide Integrated Monitoring and Documentation Information System (IMDIS). A programme oversight system is operated by the Monitoring and Evaluation Unit, which is staffed by one Coordinator and provides methodological support and guidance to self-evaluation along with a substantive contribution to the establishment of mechanisms, criteria and guidelines for design, monitoring and evaluation of research and operational activities.

22. The inspection noted the proactive initiatives of the Coordinator of the Unit in producing an inventory of all current and envisaged evaluation activities of the Centre. Regrettably, the effort to transform this inventory into an interactive database was interrupted by the shortage of funds.

23. Another commendable initiative was participation in establishing the Nairobi Monitoring and Evaluation Network, which includes the United Nations entities, other international organizations, non-governmental organizations and academic and research institutions. The Network has provided a forum to share experiences and lessons learned and to discuss emerging issues. A valuable undertaking of the Network was conducting in September 1999 the inaugural meeting of the African Evaluation Association, which provided a unique opportunity for training and exchange of experience on a wide range of evaluation subjects, including topics of immediate relevance to the Centre's work.

24. The work of the Monitoring and Evaluation Unit will be challenged by the fusion of normative and operational activities envisaged by the revitalization process. This will require the development of coherent and compatible performance indicators and evaluation benchmarks applicable to both types of activities. It may not be feasible to accomplish this complex and resource-intensive task with the current meagre staffing of the Unit. It is also a task that will be certain to delay even more the development of the interactive evaluation database, an important instrument supporting the institutional memory of the Centre.

25. OIOS ascertained that the project appraisal function was separated from the monitoring and evaluation function in May 1997. It was noted that with the establishment of the Programme Review Committee, a project design checklist was developed to facilitate the assessment of activities at the design stage. The criteria included in the checklist have since been revised based on the experience gained and are being consistently used in the appraisal of project proposals. Additional mechanisms for strengthening feedback from past and ongoing projects are currently being considered.

VI. Administrative and financial management

26. In the 1997 report, OIOS recommended a set of measures aimed at strengthening financial control, assigning certifying and approving responsibilities, streamlining relevant organizational arrangements and managing overhead support costs (ibid., paras. 67 and 68).

27. The Centre has taken decisive measures to improve financial control and to ensure that regional offices have documented terms of delegated authority. This aspect of the recommendation is considered closed. However, while financial control has improved, the Centre still appears to be experiencing problems with financial management. In particular:

- Lack of adequate, accurate and timely financial information is seen as an obstacle towards further restoring donor confidence.
- The Centre is still facing problems in establishing an accurate picture of its financial position because the quality of the primary financial information is poor. This is an obstacle to sound financial planning of the Centre's activities.
- Computerized financial data exchange between Nairobi and the regional offices and field projects is virtually non-existent.

28. These problems are partly historical and partly attributable to the absence of procedures to verify, monitor and review the accuracy and completeness of financial data on a regular basis. The problem is further exacerbated by delays in the processing of inter-office vouchers. Although these problems largely relate to the financial services of UNON, it is up to the Centre to ensure that reliable standards are set and met.

29. UNON and the Centre are working together to address the immediate problem of inaccurate financial data. For instance, Habitat has provided project finance to UNON to strengthen temporarily the middle management of the Financial Resources Management Service of UNON and to make improvements in the recording and reporting of financial data. UNON and Habitat have also worked together to produce annual and quarterly "consolidated" accounts of all the income and expenditure, assets and liabilities, managed by the Centre. The production of these reports has highlighted a number of accounting issues that are currently being looked at. These include the need for reconciliation of inter-fund balances and control accounts on a regular basis, the need for closer monitoring of the level of staff receivables, and the need for better control over cash flows. However, these initiatives require more effective coordination and a determination of mechanisms and resources needed to provide the financial information in an accurate and timely manner.

VII. Financial situation

30. The Commission has warmly welcomed the revitalization effort as an important step in regaining donor confidence, a step that appears to have prompted several significant donors to positive financial responses. The optimistic reaction to this by management (see HS/C/17/2, para. 24) is contrasted, however, with a more sombre assessment from the Advisory Committee on Administrative and Budgetary Questions. In reviewing the Centre's proposed budget for 2000-2001, the Advisory Committee noted the positive developments in the revitalization of Habitat, while expressing its concern that it had yet to be reflected in an appreciable and sustained increase in contributed income and that the United Nations Habitat and Human Settlements Foundation remained exposed to risk of financial volatility and unpredictability. It noted that the increase in 1998-1999 was limited to the special-purpose contributions, whereas general-purpose income continued to decline, thus limiting the flexibility to respond quickly to programme opportunities (see HS/C/17/9/Add.1, para. 5).

31. Indeed, the expected income of the Foundation's general-purpose fund, which may be viewed as a measure of donor confidence, shrank in 1999 by 17 per cent compared to 1998, down to US$ 3,065,385. Owing to late payments, actual income, as of 1 October 1999, was only around 45 per cent of the expected income and, as a result, expenditures exceeded income for the most part of 1999.

32. A further blow to the Centre's financial stability will be the discontinuation, in December 1999, of the long-standing support of a major donor. This may result in the loss of Professional staff with specialized experience, which will impact on the programmatic capacity of the Habitat Centre.

33. Given that the Habitat Centre will be launching two global campaigns in 2000, energetic efforts both to demonstrate tangible improvements in financial and administrative management and to broaden the donor base are essential.

34. OIOS is mindful of the fact that the dynamics of contributions is not necessarily linked directly to the Centre's performance; various extraneous political and budgetary considerations of donor countries may influence contributions. A key element is the inevitable time lag needed to translate positive political appraisal by the donors into budgetary appropriations. During this key time of the revitalization process, it is important to demonstrate consistent, demonstrable and convincing results. Any slack or reversal in the revitalization effort could have a disproportionate negative effect on donors' confidence.

35. The Centre has done little to contact other United Nations agencies to see if there are lessons to be learned from the experiences of others in fund-raising and overall relations with donors.

VIII. Regional dimension

36. In the 1997 report, OIOS recommended that the strengthening of regional activities should be part of a well-articulated policy strategy in accordance with Commission on Human Settlements resolution 15/7 of 1 May 1995 (A/51/884, para. 54). In that connection, the Revitalization Team recommended that one of the best ways to integrate regional offices would be to provide for regular budget funding for part of the staff costs in each of them.[2] Concerning regionalization, the Commission, in its resolution 17/4 of 14 May 1999, requested the Executive Director, *inter alia*, to elaborate a comprehensive strategy for the representation of Habitat in the regions, its decentralized functions and its offices other than in Nairobi. The Executive Director stated, in that regard,

that owing to the current financial situation of the Centre, regional offices would need to be financed by the regions themselves, i.e., by combining overheads generated from projects executed in the respective regions with earmarked contributions from host countries (see HS/C/17/2, para. 62).

37. The regionalization policy, presented to the Commission on Human Settlements at its seventeenth session by the Acting Executive Director, envisaged that as part of the ongoing reorganization, the regional offices would become fully integrated into the work of the Centre and act as regional focal points for the global campaigns, as well as sources of high-quality inputs to the work of headquarters. The offices would thus have the ability to operate as an integral part of the Centre for the benefit of the regional member States, cities and partners. Provisions were made in the new structure to broaden the activities of the regional offices so that they reflect the integration between normative and operational capacities at the regional level. The work programme of the regional offices is designed to incorporate the Centre's work programme and the global campaigns, adapting the Centre's policies and strategies to the regions.

38. OIOS considers the regionalization activity to be one of the more successful areas of the revitalization process. The three regional offices covering Africa and the Arab States, Asia and the Pacific, and Latin America are established and have successfully developed operational, awareness-raising and capacity-building activities in relevant regions. OIOS noted economies realized by closing information offices in Amman and Mexico City and incorporating their activities into the respective regional offices.

39. However, OIOS noted that although two of the three regional offices – Africa and the Asia/Pacific – are financially stable, the third one is locked in a perpetual struggle for funds, relying almost entirely on earned overhead income. Such preoccupation with daily survival and the inherent unpredictability do not bode well for the long-term sustainability and coherent development of its normative capacity, unless some backstopping is put in place by the Centre.

40. The Centre intends to enhance the linkage between the operational activities and the normative function of the two global campaigns of Habitat by strengthening the analytical capacity of the regional offices. While it will undoubtedly enhance cross-pollination of the operational and normative activities of Habitat, it is difficult to contemplate how it can be achieved within the prevailing resource constraints. In this connection, OIOS finds merit in the aforementioned recommendation of the Revitalization Team to allocate regular budget resources towards this purpose.

41. OIOS also noted with interest the initiative under discussion to establish another regional office covering Central Asia and Eastern Europe and is of the view that such a course of action would strengthen international outreach and the operational capacity of Habitat.

IX. Institutional memory

42. In 1997, OIOS emphasized that there was an urgent need for effective institutional memory serving the needs of operational units and stakeholders (A/51/884, paras. 58 and 59). The current inspection found that progress towards that goal was uneven. While convincing results have been achieved in building institutional memory in specific substantive subject areas, such repositories of knowledge remain compartmentalized, with cross-cutting access either difficult or non-existent. Concerning the Centre's own organizational institutional memory, it remains amorphous and disjointed and requires a coherent strategy, expertise and resources to achieve the desired effectiveness.

43. Among successful examples of consistent and continuous development of specialized institutional memory are the series of quarterly and biennial summary reports on operational activities containing comprehensive information on financial, geographical and topical aspects of each project; the programme on the dissemination of best practices, which operates its own web site and distributes CD-ROMs; the compendium of indicators on human settlements development; and the inventory of evaluations and project appraisals, and others.

44. Centres of excellence concerning institutional memory do exist in Habitat, localized around specific areas and serving mostly narrowly defined user groups. To make this specialist institutional memory comprehensive and user-friendly, cross-linkages between the databases and universal access through multiple points of entry are required. Only with those

facilities in place would the interests of stakeholders be served effectively.

45. OIOS was encouraged by the fact that the Centre's management is cognizant of the need to develop a holistic approach to substantive institutional memory and prepared to act on it. The universal electronic access through an on-line interactive system is included in the terms of reference of the team developing a strategic information technology plan for Habitat. However, given its financial situation, the cost of such a project may be prohibitive.

46. As for the development of Habitat's own organizational institutional memory, it remains in the embryonic stage. The abolition years ago of its Documentation Centre, the need to vacate, because of financial constraints, a sizeable share of its former premises and the resultant chaotic disposal of records, the absence of a uniform taxonomy of records and an official archival policy: this negative legacy lingers on and has so far prevented any decisive steps towards resolving the problem. To move the situation from this lethargic point, a set of competent, practical steps is required. Unfortunately, the Centre lacks specialized expertise on records and archives management, and resorting to ad hoc solutions could only further aggravate the situation.

X. Management advisory mechanisms and internal communications

47. In 1997, OIOS recommended that appropriate institutional mechanisms should be established to advise management on programme policy and execution and, further, that management should invest time in improving horizontal and vertical communication within the secretariat to break compartmentalization (A/51/884, paras. 64 and 65). The 1999 inspection team was satisfied that the recommendations have been fully implemented; moreover, the Centre took advantage of the situation to help foster a new, more agile, multidisciplinary and results-oriented culture in the Centre. OIOS considers this to be one of the successes of revitalization.

48. The Centre has in place the elements of a strong structure for vertical communication. Senior management meets regularly and the minutes of its meetings are circulated electronically to all staff, regardless of location. This effort has been adopted throughout the Centre with weekly divisional meetings of section chiefs and similar meetings at the branch level.

49. Compartmentalization is being tackled through the creation of flex-teams which comprise staff from different subject areas (both normative and operational) who have been brought together to tackle a specific multidisciplinary problem. The important feature of this arrangement is that it does not require a specific case-by-case consideration and approval at the top level; the initiative of convening a flex-team can be taken at any horizontal level. Such flexibility is ensured by guidance to managers on the format and workings of flex-teams.

50. Staff currently have the option to volunteer to join a flex-team. This option requires the staff member to exercise good judgement in deciding whether his/her expertise and current workload, priorities and deadlines justify membership in a particular flex-team, and requires his/her supervisor to be equally objective and forthcoming in that regard. Currently, the atmosphere of encouragement and support prevails. But it is conceivable that frictions might surface when issues like assessments in the Performance Appraisal System for individual input into flex-team work, or possible conflicts between planned work and flex-team assignments and the like, would come to the fore. OIOS noted with satisfaction that such an eventuality is under consideration and possible incentive schemes, time management arrangements, links between flex-team participation and individual performance appraisals are being discussed. It is important to translate these discussions into concrete mechanisms, which would ensure that the flex-team format will survive the initial period of enthusiasm and continue as a permanent feature of the work culture.

XI. Personnel management

51. In 1997, OIOS recommended that the recruitment and promotion of staff under the "L" category (200 series of the Staff Rules) posts should be conducted through a reviewing body in accordance with clearly established criteria and that the assignment of advisers under the 200 series of the Staff Rules to carry out line functions and supervise staff under the 100 series of the Staff Rules should be discontinued (A/51/884, paras. 60 and 61).

52. In the course of the revitalization exercise, proposals for regularization of the "L"/200 series problem were made. At the time of the inspection, these proposals had still not been transformed into a coordinated strategy. Unfortunately, Habitat did not seize the opportunity to tackle this issue by clearly establishing which posts are under the 100 series and which are under the 200 series within the framework of the agreed new organizational structure.

53. In the view of the Centre's management, the procedures for recruitment and promotion of "L" category staff have been regularized, whereas the discontinuation of the assignment of "L"/200 series staff to line and supervisory functions was delayed until the completion of the revitalization exercise because of the prevalence of such personnel among the Centre's staff. OIOS recognizes that "L"/200 series staff comprise two thirds of the total Professional strength, and the two decades-long legacy of disregarding the clear distinction between personnel management under the 200 and 100 series of the Staff Rules by successive administrations does represent a serious challenge to the efforts of the current one to normalize the situation.

54. While awaiting the outcome of the revitalization exercise OIOS would have expected the Centre to ensure that nothing was done to further complicate the situation. However, staff serving under the "L"/200 series were placed in 100 series positions with line or supervisory functions; in July 1998, an "L"/200 series staff member was designated as Officer-in-Charge of Habitat for the periods of the Acting Executive Director's absences from Nairobi. Most recently, in April 1999, as a result of the provisional implementation of the new organizational structure, "L"/200 series staff were assigned, albeit on an acting basis, to core supervisory functions. While OIOS acknowledges that, at the time of the inspection, all senior supervisory positions in the Centre were advertised for appointment under the 100 series, it recommends that this exercise should be integrated into an all-encompassing systematic approach to the regularization of the personnel situation.

55. OIOS noted that appropriate action was recently taken to classify senior posts and issue vacancy announcements. The Centre should fill these vacancies expeditiously and in full observance of the established rules and procedures.

XII. Management training

56. The initial recommendation of OIOS was to introduce management training at various levels of management and on-the-job training for administrative staff (A/51/884, para. 71). The current inspection ascertained that administrative staff are being trained in the application of the Integrated Management Information System (IMIS) and, in most cases, also regarding the essential duties of their posts. The implementation of training activities belongs entirely to UNON; no regular budget funds are allotted to the Centre for that purpose. As the provider of services, UNON does not bear any responsibility for designing the human development strategy of Habitat; it is obviously the latter's responsibility. However, because of the perpetual shortage of resources, the Centre prepared no such programme.

57. OIOS noted with satisfaction that the Staff Development and Training Section of UNON maintains an excellent relationship and receives full support, within available resources, from the Staff Development Services of the Office of Human Resources Management. Under the Organization-wide programme for upgrading of skills, funds are allocated to Habitat through UNON, based on an annual training plan. It is expected that the training needs of the Centre are incorporated into the annual training plan. For the 1998-1999 biennium, $265,000 was allocated through UNON.

58. Eligible staff of Habitat attended the People Management Programme, either in New York or Nairobi in 1996, as well as the People Management Programme Follow-up Programme held in Nairobi in 1997. Both the Supervisory Skills Programme and the General Service Development course were held in Nairobi in 1999. Local trainers have been trained to conduct the General Service Development Programme on an ongoing basis.

59. With regard to financial management tranining, the centrally coordinated training programme of the Office of Human Resources Management on United Nations budget and finance was conducted in Nairobi from 8 to 10 December 1999 for staff in the Budget and Funds Management Service of UNON, as well as administrative staff of substantive areas within UNEP and Habitat. At that time, the programme manager from New York and the course facilitator worked with Nairobi-based focal points and provided them with

training material to assist them in building local capacity to carry out additional coaching of staff. Additional training on financial management will be carried out in 2000.

60. OIOS noted with satisfaction that with respect to the need for managerial culture change, the Office of Human Resources Management expressed readiness to work with the new senior management of Habitat to organize a programme to address this issue in 2000. Such a programme may be funded out of the regular budget funds for managerial training.

61. OIOS believes that these positive developments should give impetus to the Centre's management to recognize that the current situation demands comprehensive and far-reaching managerial training, especially in the area of financial management. A comprehensive and viable plan of action in this regard should be prepared and the problem of the existing resource limitations should be tackled creatively.

62. Indeed, the revitalization ideology put emphasis on fusion between normative and operational activities, which are now more often than not under single management. But each of these two functions requires a distinct set of managerial skills, in particular, with regard to the financial management of project-type activities. Such skills should be mastered through structured training relying on best practices and cutting-edge approaches in each area. Furthermore, Habitat will shortly be led by a new senior management team with different backgrounds, conceptual vision, personal style, and so forth. To OIOS this seems an opportune and propitious junction, when the Centre is engaged in transforming its managerial culture, to demonstrate its foresight by envisaging a management training exercise at some point during 2000 to ensure that the new team and its subordinate level of management are guided by the same managerial philosophy and equipped with most effective techniques. Given that the need for managerial capacity-building is acknowledged, the key question, as in most cases, is how to fund such an exercise.

63. There could be two possible solutions. The first one is to allot a certain percentage of staff costs to support management training, to introduce a "training levy" on operational overhead. That would of course require a rearrangement of other activities financed from the same source. Another option is to make a well-founded, convincing request to donor countries, through the Committee of Permanent Representatives, for an earmarked contribution, including the programme, scope and budget of the proposed training.

XIII. Internal information and staff morale

64. In its initial review, OIOS recommended that management increase transparency and information on important matters of concern to the staff. The inspection found that conscientious efforts towards that end were made at the outset of the revitalization exercise. Morale was boosted by staff involvement in the discussion of the drafts prepared by the Revitalization Team, the establishment of such new channels of communication as the monthly issuance of the Habitat bulletin, distribution via e-mail of the minutes of the Senior Management Group meetings to all staff, both at headquarters and in the field, and divisional electronic bulletin boards. The meetings and consultations between the Acting Executive Director and the staff had tangible positive impact.

65. Effective internal communications should comprise dissemination of information from management to the staff, consultations with the staff on the content and meaning of this information, and feedback from the staff on their reaction and understanding. The OIOS assessment is that while the first component — information from top down — is functioning, the other two are in need of improvement.

66. It appears that with the passage of time and as the revitalization exercise went into its implementation phase, the issue of maintaining transparent communication became less of a priority on management's agenda. Communications became one-directional — from management to the staff, and regular consultations on issues of concern to the staff and to secure their feedback ceased to exist. Meetings with staff representatives now take place rather irregularly and only on request of the staff. The contents of bulletins and other communications have become limited solely to programmatic issues, while matters of vital interest to the staff such as personnel policy, restructuring and redeployments have been given little or no attention.

67. This is regrettable, because as the revitalization enters its organizational and administrative phase, as

issues of appointments, promotions, reassignments and job security inevitably move to the forefront, the need for open communication with the staff and demonstrable efforts to take their concerns into account becomes acutely felt. OIOS feels that the recent lapse in dialogue with the staff has negatively affected staff morale.

XIV. Delegation of authority

68. The concluding recommendation of the initial OIOS report was that the Department of Management should *monitor more rigorously* the authorities delegated to the management of the Centre in order to ensure that they were properly exercised (A/51/884, para. 72). The current inspection ascertained that issues related to delegated authority in human resources management were discussed by the Department of Management with the Acting Executive Director as the need arose. Such discussions were complemented by a monitoring visit of the Assistant Secretary-General for Human Resources Management to Nairobi in June 1999. As a result of that visit, a human resources management review of the Centre is envisaged. OIOS also noted that the Department of Management uses IMIS for monitoring Habitat post incumbency reports on a monthly basis and that it is envisaged to establish on-line access to such information.

69. On a related issue, OIOS was concerned that there was insufficient guidance provided to the new Acting Executive Director at the acceptance of his duties on his authority and terms of reference in regard to the three different entities — Habitat, UNEP and UNON — which he was to head. OIOS is of the view that induction and formal guidance are essential, given the broad differences in the scope of authorities delegated to the three organizational entities in Nairobi, of which UNEP has the broadest delegation and Habitat has the narrowest.

XV. Conclusion

70. The revitalization of Habitat was given a solid conceptual start and visionary strategic direction. It has contributed to decisive advances in focusing the limited resources of the Centre on precisely defined strategic goals and streamlining the organizational structure accordingly. Regrettably, owing to the historical heritage of serious unresolved problems, reform of financial and personnel management could not keep up with the programmatic revitalization. That impacted negatively on staff morale and on potential improvements in donors' confidence.

71. The crucial issue now is not to allow the revitalization momentum to slacken because of weaknesses in the area of financial and human resources management. The policy commitments to improve these areas must be persistently translated into coherent and effective action. The challenge of resource limitations should not be viewed as an obstacle to revitalization, but should be met through demonstrably credible administrative and financial performance.

72. Financial and personnel management should be moved to the forefront of the ongoing revitalization process. Effective and far-reaching measures should be developed as soon as possible in regard to both areas, with well-defined milestones, deadlines and personal responsibilities assigned for implementing each item on time. The normalization of the personnel structure should be carried out without any further delay, in conditions of full transparency, based on established criteria of professional competence, performance and programmatic requirements.

XVI. Recommendations*

73. Habitat should consider, as a priority, strengthening the resource base of the Monitoring and Evaluation Unit (SP-99-003-1)** (see paras. 20-25 above).

> *The Centre accepts this recommendation. Actions to strengthen the resource base of the Monitoring and Evaluation Unit have already been initiated with the application to a funding partner for a Junior Professional Officer position within the Unit. Efforts to increase the operating budget of the Unit will also be pursued.*

74. The Programme Support Division should, in consultation with UNON and key donors, review and finalize its financial management information requirements; review the mechanisms and resources

* Responses by the Centre and the Department of Management appear in italics under the relevant recommendations.

** An internal code used by the Office of Internal Oversight Services.

required to ensure that financial information is provided in an accurate and timely manner; and examine ways of improving electronic financial data exchanges between regional offices, field projects and Nairobi (SP-99-003-2)** (see paras. 26-29 above).

The Centre fully supports the recommendation. Currently, Programme Management Officers have been given on-line access to financial databases maintained by UNON, and also an experiment is under way to test computerized financial data exchange between Nairobi and the Asia and Pacific Regional Office. All these initiatives are part of a coordinated approach towards improvement of the financial management of the Centre.

75. The Centre should give serious consideration to enhancing the effectiveness of its resource mobilization by drawing on the innovative approaches of other United Nations funds and programmes. The review of the fund-raising concepts and techniques of major successful non-governmental organizations may also produce some useful insights for reviewing the Centre's policies in this regard (SP-99-003-3)** (see paras. 30-35 above).

The Centre fully agrees with the recommendation and plans to give it serious consideration. Contacts have already been made, especially with UNEP and the United Nations Children's Fund (UNICEF) to learn from their experiences. This information is being utilized in the currently ongoing preparation of a fund-raising strategy, which will be geared especially towards the diversification of Habitat's funding base and will increase income from voluntary contributions.

76. The Centre should conduct an in-depth review of the financial sustainability of regional offices and develop measures necessary to ensure such sustainability in the long term. As part of this review, various ways and means of financial support, including the provision of additional regular budget resources and/or outposting of headquarters personnel to regional offices, should be considered (SP-99-003-4)** (see paras. 36-41 above).

The Centre fully supports the recommendation. Currently, the possible reallocation of regular budget posts to the regional offices is being reviewed.

77. The Centre should seek specialized assistance from the Archives and Records Management Section of the Office of Central Support Services of the Secretariat in setting up its records and archives management system. Consideration should be given to seeking a donor contribution if additional resources are necessary (SP-99-003-5)** (see paras. 44-46 above).

The Centre accepts the recommendation and is fully aware of the need to address the issue. Habitat will seek specialized assistance from the relevant United Nations Offices in New York and is planning to mobilize any additional resources that may be required.

78. Habitat should set a specific deadline for designing effective mechanisms of incentives and safeguards that will encourage both individual participation in flex-teams and support from supervisors for such participation by their staff (SP-99-003-6)** (see paras. 49 and 50 above)

The Centre agrees with this recommendation and will take appropriate measures to implement it.

79. Systematic action should be taken to reclassify all posts in the new organizational structure according to their levels and types of service and to decide which posts belong to either the 100 or 200 series. Criteria should be put in place to evaluate the serving staff against the new staffing table, and due consideration should be given to satisfactory performance and length of service. Appropriate advisory bodies on appointment and promotion should be constituted in accordance with established United Nations policies and procedures (SP-99-003-7)** (see paras. 54 and 55 above).

The Centre informed OIOS that it fully accepted the recommendation and has already taken a number of practical steps towards its implementation, some of which require timely advice and assistance from the Office of Human Resources Management of the Secretariat.

80. Habitat should (SP-99-003-8)** (see paras. 61-63 above):

(a) Carry out a needs assessment with regard to management capacity-building, design an appropriate strategic plan concerning relevant training, and appoint a coordinator for the issue;

(b) Launch an active search for creative solutions to finance the exercise.

The Centre agrees with the recommendation. It will, however, not be possible to appoint a full-time coordinator for the issue considering the current difficult financial situation of Habitat. It would be more feasible to designate a focal point for management capacity-building within Habitat.

81. Management should revive dialogue with the staff, and meet with them on a regular basis, and use participatory channels of communication to mobilize active and dedicated support for revitalization (SP-99-003-9)** (see paras. 64-67 above).

The Centre agrees with the recommendation and will intensify the efforts that have been made to improve communication and increase consultation with staff. Many efforts were made during the second half of 1999 to address personnel issues related to the reduction of some earmarked activities. Staff morale has been boosted by the commitment from senior management to try and limit staff cuts to the very minimum.

82. The Department of Management should carry out a review of authority delegated to the three entities in Nairobi with a view to rationalizing the situation (SP-99-003-10)** (see paras. 68 and 69 above).

83. Consideration should be given to including a briefing on terms of reference and delegation of authority in the induction procedures for newly appointed senior officials (SP-99-003-11)** (see paras. 68 and 69 above).

The Under-Secretary-General for Management stated that this recommendation would be given consideration in the year 2000.

(*Signed*) Hans **Corell**
Under-Secretary-General
Overseer, Office of Internal Oversight Services

Notes

[1] See *Official Records of the General Assembly, Fifty-fourth Session, Supplement No. 8* (A/54/8), annex I.

[2] "New Organizational Structure for Habitat", draft dated 28 January 1999, para. 3.1.6.

Annex

United Nations Centre for Human Settlements (Habitat)

" The City Agency "

ORGANIZATIONAL STRUCTURE